

Part III

Administrative, Procedural, and Miscellaneous

26 CFR 1.263A-1T: Uniform capitalization of costs (temporary).
(Also Part I, §§ 446(e); 1.263A-2T, 1.446-1)

Rev. Proc. 2006-11

SECTION 1. PURPOSE

This revenue procedure provides procedures by which a taxpayer changing its method of accounting to comply with § 1.263A-1T or 1.263A-2T of the Income Tax Regulations as set forth in T.D. 9217 (70 FR 44467) for its first taxable year ending on or after August 2, 2005, may request the consent of the Commissioner utilizing either the advance consent procedures of Rev. Proc. 97-27, 1997-1 C.B. 680 (as modified and amplified by Rev. Proc. 2002-19, 2002-1 C.B. 696, and amplified and clarified by Rev. Proc. 2002-54, 2002-2 C.B. 432) or the automatic consent procedures of Rev. Proc. 2002-9, 2002-1 C.B. 327 (as modified and clarified by Announcement 2002-17, 2002-1 C.B. 561, modified and amplified by Rev. Proc. 2002-19, 2002-1 C.B. 432, and amplified, clarified and modified by Rev. Proc. 2002-54, 2002-2 C.B. 432).

SECTION 2. BACKGROUND

.01 Under §§ 446(e) and 1.446-1(e), a taxpayer generally must secure the consent of the Commissioner before changing a method of accounting for federal income tax purposes. To obtain the Commissioner's consent to a change in method, § 1.446-1(e)(3)(i) generally requires a taxpayer to file Form 3115, Application for Change in Accounting Method, during the taxable year in which the taxpayer desires to make the proposed change. Section 1.446-1(e)(3)(ii) authorizes the Commissioner to prescribe administrative procedures that provide the terms and conditions necessary for a taxpayer to obtain consent to change a method of accounting. The terms and conditions the Commissioner may prescribe include whether the change is to be made with a § 481(a) adjustment, and if so, the § 481(a) adjustment period, or on a cut-off basis.

.02 Section 481(c) and §§ 1.446-1(e)(3)(ii) and 1.481-4 provide that the adjustment required by § 481(a) may be taken into account in determining taxable income in the manner and subject to the conditions agreed to by the Commissioner and the taxpayer.

.03 This revenue procedure applies only for a taxpayer's first taxable year ending on or after August 2, 2005, for a change in method of accounting to comply with § 1.263A-1T or 1.263A-2T. A change in method of accounting under this revenue procedure requires a § 481(a) adjustment, and the § 481(a) adjustment period is two taxable years for a net positive adjustment. It is expected that this two-year adjustment period for a net positive § 481(a) adjustment will apply to changes in methods of

accounting made in future years to comply with the rules in §§ 1.263A-1T and 1.263A-2T, and the successor final regulations.

.04 Rev. Proc. 97-27 provides the general procedures under §§ 446(e) and 1.446-1(e) for obtaining the consent of the Commissioner to change a method of accounting for federal income tax purposes. Except as specifically provided in section 4.02 of Rev. Proc. 97-27 or other published guidance, Rev. Proc. 97-27 applies to all taxpayers requesting the Commissioner's consent to change a method of accounting for federal income tax purposes. See Rev. Proc. 97-27, sections 1.01 and 4.01.

.05 Section 4.02(1) of Rev. Proc. 97-27 provides that Rev. Proc. 97-27 does not apply if the change in method of accounting is required to be made pursuant to a published automatic change procedure.

.06 Rev. Proc. 2002-9 provides procedures under §§ 446(e) and 1.446-1(e) for obtaining the automatic consent of the Commissioner to change certain methods of accounting for federal income tax purposes. Specifically, Rev. Proc. 2002-9 applies to a taxpayer requesting the Commissioner's consent to change to a method of accounting described in the APPENDIX of such revenue procedure. Rev. Proc. 2002-9 is the exclusive procedure for a taxpayer within its scope to obtain the Commissioner's consent. See Rev. Proc. 2002-9, sections 1 and 4.01.

.07 T.D. 9217 contains final and temporary regulations relating to the capitalization of costs under the simplified service cost method provided by § 1.263A-1(h) and the simplified production method provided by § 1.263A-2(b). Specifically, the regulations under § 1.263A-1T and § 1.263A-2T clarify what property qualifies as self-

constructed assets produced on a routine and repetitive basis for purposes of the simplified service cost method or the simplified production method, respectively.

.08 Section 1.263A-1T(k)(1) provides that a change in a taxpayer's treatment of mixed service costs to comply with § 1.263A-1T is a change in method of accounting to which the provisions of §§ 446 and 481 and the regulations thereunder apply. Section 1.263A-1T(k)(1) further provides that for a taxpayer's first taxable year ending on or after August 2, 2005, the taxpayer is granted the consent of the Commissioner to change its method of accounting to comply with § 1.263A-1T, provided the taxpayer follows the administrative procedures issued under § 1.446-1(e)(3)(ii), as modified by § 1.263A-1T(k)(2) through (4), for obtaining the Commissioner's automatic consent to a change in accounting method.

.09 Section 1.263A-2T(e)(1) provides that a change in a taxpayer's treatment of additional § 263A costs to comply with § 1.263A-2T is a change in method of accounting to which the provisions of §§ 446 and 481 and the regulations thereunder apply. Section 1.263A-2T(e)(1) further provides that for a taxpayer's first taxable year ending on or after August 2, 2005, the taxpayer is granted the consent of the Commissioner to change its method of accounting to comply with § 1.263A-2T, provided the taxpayer follows the administrative procedures issued under § 1.446-1(e)(3)(ii), as modified by § 1.263A-2T(e)(2) through (4), for obtaining the Commissioner's automatic consent to a change in accounting method.

.10 Pursuant to the foregoing provisions, a taxpayer changing its method of accounting to comply with § 1.263A-1T or 1.263A-2T as set forth in T.D. 9217 for its first

taxable year ending on or after August 2, 2005, is required to use the automatic consent procedures of Rev. Proc. 2002-9 (as modified by § 1.263A-1T(k) or 1.263A-2T(e), whichever is applicable) to obtain the consent of the Commissioner to change its method of accounting. Some taxpayers contemplating such accounting method changes are uncertain whether their proposed methods of accounting will comply with the regulations under § 263A, and have requested that the Internal Revenue Service allow for advance review of their requested accounting methods.

.11 The Service has determined that it is in the best interest of sound tax administration to allow taxpayers changing their methods of accounting to comply with § 1.263A-1T or 1.263A-2T for their first taxable years ending on or after August 2, 2005, to utilize either the advance consent procedures of Rev. Proc. 97-27 or the automatic consent procedures of Rev. Proc. 2002-9. Therefore, when §§ 1.263A-1T and 1.263A-2T are issued as final regulations, the final regulations will allow taxpayers to use the advance consent procedures for their first taxable year ending on or after August 2, 2005. This revenue procedure is being issued in advance of the final regulations and the rules provided herein are consistent with the rules that will be provided in the final regulations.

SECTION 3. SCOPE

This revenue procedure applies to any taxpayer seeking to change its method of accounting for mixed service costs to comply with § 1.263A-1T for its first taxable year ending on or after August 2, 2005, and to any taxpayer seeking to change its method of accounting for additional § 263A costs to comply with § 1.263A-2T for its first taxable

year ending on or after August 2, 2005.

SECTION 4. APPLICATION

.01 The provisions of section 4.02(1) of Rev. Proc. 97-27 and section 4.01 of Rev. Proc. 2002-9 that preclude a taxpayer from requesting the Commissioner's advance consent to change a method of accounting that is required to be made pursuant to a published automatic change procedure shall not apply to changes in method of accounting to comply with § 1.263A-1T or 1.263A-2T for a taxpayer's first taxable year ending on or after August 2, 2005. Accordingly, a taxpayer within the scope of this revenue procedure may utilize either the advance consent procedures of Rev. Proc. 97-27 or the automatic consent procedures of Rev. Proc. 2002-9 to obtain the consent of the Commissioner to make such changes.

.02 The following provisions shall apply to a taxpayer within the scope of this revenue procedure that requests the consent of the Commissioner under Rev. Proc. 97-27 to change its method of accounting to comply with § 1.263A-1T or 1.263A-2T for its first taxable year ending on or after August 2, 2005:

(1) Notwithstanding the provisions of § 1.446-1(e)(3)(i) and section 5.01(1)(a) of Rev. Proc. 97-27, a taxpayer may submit a Form 3115 on or before January 31, 2006, or the date that is 30 days after the end of the taxpayer's taxable year for which the change is requested, whichever is later;

(2) The provisions of section 4.02 of Rev. Proc. 97-27 that otherwise would prevent certain taxpayers under examination, before appeals or before a federal court from requesting the Commissioner's advance consent to change a method of

accounting shall not apply;

(3) A taxpayer that changes its method of accounting for mixed service costs to comply with § 1.263A-1T will not receive audit protection under section 9 of Rev. Proc. 97-27 if its method of accounting for mixed service costs is an issue under consideration (as defined in section 3.08 of Rev. Proc. 97-27) at the time the Form 3115 is filed with the National Office;

(4) A taxpayer that changes its method of accounting for additional § 263A costs to comply with § 1.263A-2T will not receive audit protection under section 9 of Rev. Proc. 97-27 if its method of accounting for additional § 263A costs is an issue under consideration (as defined in section 3.08 of Rev. Proc. 97-27) at the time the Form 3115 is filed with the National Office; and

(5) The change in method of accounting requires a § 481(a) adjustment. The § 481(a) adjustment period is two taxable years for a net positive adjustment.

SECTION 5. EFFECT ON OTHER DOCUMENTS

Rev. Proc. 97-27 and Rev. Proc. 2002-9 are modified.

SECTION 6. DRAFTING INFORMATION

The principal author of this revenue procedure is Grant D. Anderson of the Office of Associate Chief Counsel (Income Tax & Accounting). For further information regarding this revenue procedure contact Scott Rabinowitz at (202) 622-4970 (not a toll free call).